

Keppel Reit looks to future-proof its commercial spaces

As far back as he can remember, the twin touchstones of real estate executive Paul Tham's life have been wisdom and learning.

Growing up, a familiar mantra was one from the Book of Proverbs: "Wisdom is the principal thing; therefore get wisdom: and with all thy getting get understanding."

Mr Tham, chief executive of the manager of Singapore Exchange-listed Keppel Reit, recalls: "My godfather taught me the importance of wisdom and understanding.

"Both are tied to two key skills – the willingness to learn, as well as the ability to learn continuously – and involve lots of hard work."

Driven by a passion to build, Mr Tham began his career as a structural engineer in New York, after earning a Bachelor of Science degree in civil and environmental engineering from Cornell University.

"I was picking up different skills every day," recalls Mr Tham, 38, who also holds a master's degree in business administration from Singapore Management University.

"In one... volunteer project to build a school in upstate New York, we ended up doing most of the construction work ourselves – driving forklifts and operating small excavators. That was one of the most satisfying projects I was involved in."

His next stop – Bain & Company, as a management consultant working with multinationals in the Asia-Pacific on a wide range of functions, including growth strategies.

"Management consulting teaches you to learn continuously," he notes. "You're working on new projects, reading reports, asking questions all the time. You have to work hard to pick up knowledge on new industries and markets.

"And the fastest way to learn is to tap the expertise and experience of others."

In 2014, Mr Tham joined Keppel

Corp's strategy and development unit and played a key role in the formation of Keppel Capital, eventually becoming CEO of Keppel Reit Management last year.

PORTFOLIO OPTIMISATION

Keppel Reit listed here in April 2006. It has a portfolio of Grade A commercial assets in prime business districts across the region.

Its assets under management total about \$8 billion in Singapore, Sydney, Melbourne, Brisbane, Perth and Seoul.

The Reit is sponsored by Keppel Land and managed by Keppel Reit Management, a wholly owned unit of Keppel Capital.

Mr Tham has implemented key strategies to put the trust on a steady growth trajectory.

The first is portfolio optimisation, which allows the Reit to achieve long-term sustainable returns.

This includes divesting lower-yielding assets and so increasing the flexibility to fund growth through reinvestment, continuing its unit buyback programme, distributing capital gains and paring debt.

"Over the last two years, we've divested about \$1.1 billion worth of assets," Mr Tham says, pointing to the paring of a 20 per cent stake in Ocean Financial Centre in December 2018 and the sale of Bugis Junction Towers last November.

"The focus is to enhance distribution per unit (DPU), and it seems to be working, with Keppel Reit seeing the first year-on-year increase in DPU in 2019 after five years of decline."

DPU edged higher to 5.58 cents for the 12 months to Dec 31 last year, up from 5.56 cents the previous year.

The second prong of Mr Tham's strategy involves boosting capital efficiency by managing both debt and equity. In mid-2018, the trust



Keppel Reit Management chief executive Paul Tham has implemented key strategies to put Keppel Reit on a steady growth trajectory. These include portfolio optimisation so the Reit can achieve long-term sustainable returns, and boosting capital efficiency. ST PHOTO: ONG WEE JIN

became the first Reit in Singapore to run a DPU-accretive, unit buyback programme. It had bought and cancelled 95.3 million units as at Dec 31 last year.

"We've seen the benefits in our first-half 2020 financial results, where distributable income was largely similar, but DPU rose due to a smaller unit base."

The Reit has also reduced its overall cost of debt.

Keppel Reit will remain Singapore-centric, Mr Tham said. "There will be a shift as we raise our overseas exposure, but it will be marginal, for example, lifting it to 25 per cent or even 30 per cent from 20 per cent.

"Investing in assets across Australia and South Korea enhances our ability to deliver sustainable returns through changing property cycles in these different markets."

Australian leases tend to run five to 10 years versus Singapore's three to five years. "These longer leases... offer more stability and increase the Reit's ability to grow DPU, even if one market is experiencing a down cycle," he added.

IMPORTANT LESSON

My godfather taught me the importance of wisdom and understanding. Both are tied to two key skills – the willingness to learn, as well as the ability to learn continuously – and involve lots of hard work.



MR PAUL THAM, chief executive of Keppel Reit Management, on his two touchstones of wisdom and learning.

The coronavirus outbreak has created headwinds, of course.

"Covid-19 has been challenging for retail and hospitality assets, but for an office landlord like us with a small retail component, there's been minimal impact," Mr Tham notes.

"Nonetheless, there's a fair amount of uncertainty due to the global recession and rising geopolitical tensions, so our main focus is engagement with our tenants."

At one end of the spectrum, tech-related tenants are still expanding, fuelled by digitalisation trends that accelerated in the pandemic. At the other end, hospitality and travel-related businesses are struggling.

Future-proofing the Reit's commercial spaces is key, Mr Tham says. "We need to ensure our buildings have the best-in-class infrastructure such as... advanced filtration systems."

The focus on future-proofing can be seen from the use of a security robot that patrols Ocean Financial Centre to enforce safe-distancing measures.

Longer term, how tenants use spa-

ces will also evolve. Mr Tham says: "Physical offices will remain a necessity, although the form and functions of the office will evolve."

"Many firms will likely incorporate work-from-home protocols... and employees and tenants will want more flexibility."

"Space for each employee may be increased to incorporate social distancing within an office layout, reversing the trend of higher density over the last two decades."

The resulting impact on office demand is likely to be a measured one as tenants reassess their needs.

In tandem with these considerations, the repositioning of assets has emerged and will continue to gain momentum. Mr Tham says: "At the end of the day, owning the right assets will be instrumental to landlords surviving, and thriving."

• This is an edited excerpt from Singapore Exchange's Kopi-C: The Company Brew, a column featuring C-level executives of SGX-listed firms. Previous editions are on SGX's website www.sgx.com/research